

Excerpts From Recent
New Jersey Board of Public Utilities Decisions and Orders
Regarding SFAS No. 143

I/M/O Rockland Electric Company, OAL Docket Nos. PUC 07892-02 and PUC 09366-02, BPU Docket Nos. ER02080614 and ER02100724, Initial Decision, June 20, 2003

RECO calculates its test year depreciation expense to be \$5.194 million. RECO ib 128. RECO 30, Page 28-29. RECO 11A, Exhibit P-2, Page-11. The Ratepayer Advocate disputes the Company's figure and proposes a depreciation expense level of \$3,864,000. Rib-74. Ratepayer Advocate witness Majoros also recommended that the amortization of the Theoretical Reserve Difference should be \$1.103 million rather than the company's proposed amortization amount of \$588,000. Ratepayer Advocate would exclude depreciation of the enhanced service reliability program and depreciation of post-test year plant. R-51. RJH-17.

Staff determined the depreciation expense to be \$3,971,000. Sib Exhibit P-2, Schedule 13-14. Staff added a 10-year average net salvage of \$150,000 to the total of \$3,821,100. Sib 74.

The main controversy in the depreciation issue concerns net salvage and cost of removal and the interpretation of Statement of Financial Accounting Standards No. [143]. SFAS 143, paragraph B73. RECO rb Appendix 15.

Ratepayer Advocate witness Michael J. Majoros expressed his opinion that the company's depreciation proposal was unreasonable. In his pre-filed testimony Witness Majoros claims the Company's proposal will produce excessive depreciation and increase the revenue requirement. He also states the company's proposal is inconsistent with current thinking regarding cost, capital recovery and net salvage, particularly the cost of removal component of net salvage. R-36, Page 3. He traces the alleged excessive depreciation to a request for negative net salvage, which he claims, is unreasonable. R36-4. This results in an excessive revenue requirement. R-36-4. Witness Majoros recommends a depreciation expense of \$3,863,900. R-36-20.

RECO witness Hutcheson disagrees with Mr. Majoros proposal and alleges that Majoros approach is a results driven exercise designed to under state depreciation rates, that he has pushed the recovery of net salvage far out into the future thereby relieving rate payers who benefit from the plant serving them today from any cost responsibility for retirement and removal of such plant.

It imposes a cost on customers who never benefited from the plant to pay for its removal.

Staff concurs in part with the Ratepayer Advocate, supporting the intellectual foundation of FAS143, which supports “unbundled” depreciation rates, rates that exclude embedded cost of removal provisions. Staff would favor a cost of removal expense based upon a 10-year window of actual experience rather than the 5-year average used by the Ratepayer Advocate. Sib-74. Staff supports a \$150,000 annual negative net salvage provision. Staff recommends a test year depreciation expense of \$3,971,000.

I **FIND** that the Staff’s test-year depreciation expense of \$3,971,000 to be reasonable.¹

I/M/O Rockland Electric Company, OAL Docket Nos. PUC 07892-02 and PUC 09366-02, BPU Docket Nos. ER02080614 and ER02100724, Summary Order, July 31, 2003

Based on our review of the extensive record in this consolidated proceeding, the Board has determined that the Initial Decision, subject to certain modifications, which will be set forth herein, represents an appropriate resolution of this proceeding. Accordingly, except as specifically noted below, and as will be further explained in a detailed Final Decision and Order which shall be issued, the Board HEREBY ADOPTS and incorporates by reference as if completely set forth herein, as a fair resolution of the issues in this consolidated proceeding, the Initial Decision.²

All the parties in the base rate case agree that there is a significant excess depreciation reserve. The Company proposed a 20-year amortization of its calculated reserve excess of \$11.8 million. The RPA claimed the proper reserve excess was \$22.1 million, based upon the Company’s asset lives, but excluding the Company’s future net salvage assumptions from the depreciation rates. The RPA accepted the Company’s proposal of a 20-year amortization. Both Staff and the ALJ adopted the RPA’s recommendation. The Board HEREBY MODIFIES the Initial Decision so that the RPA’s recommended level of excess reserve is amortized back to ratepayers over 10 years. The Board finds this to be an appropriate action in order to offset the increase associated with the deferred

¹ I/M/O Rockland Electric Company, OAL Docket Nos. PUC 07892-02 and PUC 09366-02, BPU Docket Nos. ER02080614 and ER02100724, (Initial Decision, June 10, 2003), p. 47-49.

² I/M/O Rockland Electric Company, BPU Docket Nos. ER02080614 and ER02100724, Summary Order, July 31, 2003, p. 2.

balances that were incurred over the 4-year transition period, as well as the increase in BGS charges for current service.³

I/M/O Jersey Central Power & Light Company, BPU Docket Nos. ER0208056, ER0208057, EO02070417 and ER02030173, Summary Order, August 1, 2003

Depreciation Expense. The Company is requesting a net depreciation expense annualization adjustment of \$1,515,000 and total annualized depreciation expenses of \$114,547,000. The Company maintains that it is complying with the terms of a June 27, 1996 stipulation ("Final Stipulation") approved by the Board, by updating the book depreciation rate computations annually for plant additions, retirement, transfers and adjustments and keeping the negative net salvage rate percentages and depreciation service lives consistent with the separate Stipulation of Settlement of Depreciation Rates, also dated June 27, 1996, which was also approved by the Board as part of the Final Stipulation. *I/M/O the Petitions of Jersey Central Power & Light Company for Approval of an Increase in its Levelized Energy Adjustment Charge, Demand Side Factor, Implementation of a Remediation Adjustment Clause (RAC) Other Tariff Changes, Recovery of Crown/Vista and Freehold Buyout Costs, Changes in Depreciation Rates, Settlement of Phase 1 of the Board's Generic Proceeding on the Recovery of NUG Capacity Payments*, Docket Nos. ER95120633, ER95120634, EM95110532, EX93060255 and EO95030398, (March 24, 1997). The Board HEREBY FINDS, consistent with the recommendations of the RPA and Staff, that the Company's inclusion of net negative salvage value in depreciation rates is inappropriate and instead, HEREBY ADOPTS utilization of a net salvage allowance of \$4.8 million which is the cost of removal reflected in the Company's test-year budget for transmission, distribution and general plant. Accordingly, the Board HEREBY ADOPTS a depreciation expense in the amount of \$77,146,000.⁴

³ Id., page 3, item 3.

⁴ I/M/O Jersey Central Power & Light Company, BPU Docket Nos. ER0208056, ER0208057, EO02070417 and ER02030173, Summary Order, August 1, 2003, p. 6.